



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 1, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo
Auditor-Controller

**SUBJECT: PENNY LANE CENTERS – A DEPARTMENT OF MENTAL HEALTH
AND DEPARTMENT OF CHILDREN AND FAMILY SERVICES
PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Penny Lane Centers (Penny Lane or Agency), which included a sample of billings from Fiscal Years (FY) 2012-13 and 2013-14. The Department of Mental Health (DMH) contracts with Penny Lane to provide mental health services, including interviewing Program clients, assessing their mental health needs, and implementing treatment plans. The Department of Children and Family Services (DCFS) also contracts with the Agency to provide Wraparound Approach Services, Family Preservation, Group Home, Foster Family Agency, and Intensive Treatment Foster Care Foster Family Agency Services.

The purpose of our review was to determine whether Penny Lane provided the services outlined in their County contracts, billed DMH for Program services provided, and appropriately spent DMH and DCFS Program funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their contracts and other applicable guidelines.

During FYs 2012-13 and 2013-14, total payments to Penny Lane were approximately \$43.3 million and \$48 million, respectively (see Attachment II). The Agency provides services in the First, Third, Fourth, and Fifth Supervisorial Districts.

Results of Review

DMH Program Review

Penny Lane maintained adequate documentation for billings reviewed, and their staff had the required qualifications to provide DMH Program services.

DMH and DCFS Fiscal Review

Penny Lane generally maintained adequate documentation to support the DMH and DCFS expenditures reviewed, and maintained adequate controls over their cash and fixed assets. However, Penny Lane recorded their employees' paid portion of health benefits as income instead of reducing their health benefit expenditures. As a result, their FY 2013-14 DMH and DCFS Program expenditures were overstated by \$1,140,827. After our review, Penny Lane corrected their accounting records, and submitted revised FY 2013-14 Cost Reports to DMH and DCFS.

Penny Lane's attached response indicates that they revised their accounting procedure manuals and allocation policies to ensure that expenditure adjustments are recorded accurately in their accounting records.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Penny Lane, DMH, and DCFS. Penny Lane's attached response indicates that they agree with our findings and recommendations. DMH and DCFS management will work with Penny Lane to ensure our recommendations are implemented.

We thank Penny Lane management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:sk

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Philip L. Browning, Director, Department of Children and Family Services
Dr. Marvin J. Southard, Director, Department of Mental Health
W. Robert Crigler, Ph.D., Board President, Penny Lane Centers
Ivelise Markovits, CEO, Penny Lane Centers
Public Information Office
Audit Committee

**PENNY LANE CENTERS
DEPARTMENTS OF MENTAL HEALTH AND
CHILDREN AND FAMILY SERVICES PROGRAMS
CONTRACT COMPLIANCE REVIEW
FISCAL YEARS 2012-13 AND 2013-14**

DMH BILLED SERVICES

Objective

Determine whether Penny Lane Centers (Penny Lane or Agency) provided the services billed to the Department of Mental Health (DMH) in accordance with their DMH contract and related guidelines.

Verification

We selected 30 approved Medi-Cal billings for July and August 2013, which were the most current billings available at the time of our review (March 2014). We reviewed the Assessments, Client Care Plans, Progress Notes, and Informed Consent forms in the clients' charts for the selected billings. The 30 billings represent services provided to 20 clients.

Results

Penny Lane maintained documentation to support the billings reviewed.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether Penny Lane's treatment staff had the required qualifications to provide mental health services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 14 (5%) of the 256 Penny Lane treatment staff who provided services to DMH clients during July and August 2013.

Results

Each employee reviewed had the qualifications required to provide the billed services.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether Penny Lane properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank account reconciliations were reviewed and approved by Agency management timely.

Verification

We interviewed Penny Lane personnel, and reviewed their financial records and January 2014 bank reconciliations for eight bank accounts.

Results

Penny Lane properly recorded revenue in their financial records, deposited DMH and Department of Children and Family Services (DCFS) cash receipts timely, and their bank reconciliations were reviewed and approved by Agency management timely.

Recommendation

None.

EXPENDITURES/COST ALLOCATION PLAN**Objective**

Determine whether Penny Lane's Cost Allocation Plan (Plan) complied with their County contracts, and if expenditures charged to the DMH and DCFS Programs were allowable, properly documented, and accurately billed.

Verification

We reviewed the Agency's Plan and their financial records for 78 (18 DMH, 35 DCFS, and 25 shared) non-payroll expenditures, totaling \$568,894 (\$248,639 DMH, \$168,306 DCFS, and \$151,949 shared), charged to the DMH and DCFS Programs from July 2012 through January 2014. We also interviewed Agency personnel.

Results

Penny Lane prepared their Plan in compliance with their County contracts, and allocated their shared costs appropriately. In addition, their Program expenditures were

generally allowable, properly documented, and accurately billed. However, Penny Lane recorded their employees' paid portion of health benefits as income instead of reducing their health benefit expenditures. As a result, the Agency's Fiscal Year (FY) 2013-14 Program expenditures were overstated by \$1,140,827 (\$130,326 to Wraparound Approach Services, \$37,147 to Family Preservation (FP), \$221,641 to Group Home (GH), \$83,678 to Foster Family Agency (FFA), \$28,121 to Intensive Treatment Foster Care Foster Family Agency Services, and \$639,914 to DMH).

After our review, Penny Lane corrected their accounting records, and submitted revised FY 2013-14 Cost Reports to DMH and DCFS accordingly.

Recommendation

1. Penny Lane Centers management ensure expenditures are recorded accurately in their accounting records.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Penny Lane's fixed assets and equipment purchased with DMH and DCFS funds were used for the appropriate Programs and adequately safeguarded.

Verification

We interviewed Penny Lane personnel, and reviewed the Agency's fixed assets and equipment inventory list. We also performed a physical inventory of 18 items purchased with DMH and DCFS funds to verify the items exist and were being used for the Programs.

Results

Penny Lane adequately safeguarded and used the items reviewed for the DMH and DCFS Programs.

Recommendation

None.

PAYROLL AND PERSONNEL

Objective

Determine whether Penny Lane appropriately charged payroll costs to the DMH and DCFS Programs, and maintained personnel files as required.

Verification

We compared the payroll costs for 40 employees (22 direct, 13 shared, and 5 administrative), totaling \$241,283 (\$72,530 direct, \$118,332 shared, and \$50,421 administrative) for January 2014, to the Agency's payroll records and time reports. We also interviewed staff and reviewed their personnel files.

Results

Penny Lane appropriately charged payroll costs to the DMH and DCFS Programs, and maintained the personnel files as required.

Recommendation

None.

COST REPORTS**Objective**

Determine whether Penny Lane's FY 2012-13 DMH and DCFS (FP, GH, and FFA) Cost Reports reconciled to their financial records. Wraparound and ITFC did not have Cost Reports for FY 2012-13.

Verification

We compared the Agency's FY 2012-13 DMH and DCFS Cost Reports to their financial records.

Results

Penny Lane's FY 2012-13 DMH and DCFS (FP, GH, and FFA) Cost Reports reconciled to their financial records.

Recommendation

None.

PRIOR YEAR FOLLOW-UP**Objective**

Determine the status of the recommendations identified in the prior Auditor-Controller monitoring review.

Verification

We reviewed Penny Lane's status on implementing the 19 recommendations from the FY 2009-10 monitoring review.

Results

Penny Lane implemented 11 recommendations, partially implemented seven recommendations, and one recommendation is no longer applicable. Seven recommendations were partially implemented because the Agency has not submitted their revised FYs 2008-09 and 2009-10 DMH Cost Reports to reduce their program expenditures by \$26,612 and \$60,424, respectively, although they made the appropriate correction in their financial records.

Recommendation

- 2. Penny Lane management implement the outstanding recommendations from our prior monitoring review.**

**LISTING OF CONTRACTS REVIEWED
PENNY LANE CENTERS
FISCAL YEARS 2012-13 AND 2013-14**

County Department	Program	District(s)	Payment Amounts		Contract Type
			2012-13	2013-14	
Children and Family Services	Wraparound Approach Services	First, Third, and Fifth	\$ 4,790,288	\$ 4,741,557	Fee-for-Service
	Family Preservation	First, Fourth, and Fifth	\$ 1,866,920	\$ 1,604,327	Fee-for-Service
	Foster Family Agency	First, Third, and Fifth	\$ 6,271,993	\$ 6,382,801	Fee-for-Service
	Intensive Treatment Foster Care Foster Family Agency	First, Third, and Fifth	\$ 1,709,615	\$ 1,387,711	Fee-for-Service
	Group Home	Third and Fifth	\$ 8,399,040	\$ 8,244,273	Fee-for-Service
DCFS Total			\$ 23,037,856	\$ 22,360,669	
Mental Health		First, Third, and Fifth	\$ 20,293,830	\$ 25,633,925	Cost-Reimbursement
Total Payment Amount per Fiscal Year			\$ 43,331,686	\$ 47,994,594	



Penny Lane's mission is to foster hopes and dreams by empowering children, youth and families to reach their highest potential.

March 12, 2015

John Naimo; Auditor Controller
County of Los Angeles Department of Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, CA 90012-3873

Dear Mr. Naimo,

In response to the audit report issued recently by your office regarding your audit of all of Penny Lane Centers' programs which began in April 2014 we offer the following responses to the recommendations of your office.

Recommendation 1: Penny Lane Centers management ensure expenditures and adjustments are recorded accurately in the accounting records

- It should be noted that all changes requested by your agency have been made and new financial reports for the various programs including but not limited to DMH, Residential, Foster Family Agency, Family Preservation and WrapAround Approach have been revised, reissued and resubmitted to the appropriate County and State agencies.
- The major issue noted was that reimbursement income was not offset against the appropriate expenses prior to issuing financial reports to the various agencies. Steps have been taken to correct this for the period in question as well as for future reports. Accounting procedure manuals and allocation policies have been changed that require all offsets be made every six months prior to compilation of reports. Final reports will not be compiled until the fiscal year has been closed and locked. Often a number of financial adjustments are not included in reports as they are not yet input at the time the report(s) is compiled.

Recommendation 2: Penny Lane management implement the outstanding recommendations from our prior review.

- This refers to the WrapAround Approach audit for fiscal year ending 06/30/2010 which your department conducted in 2011. At the time of the audit there was a request for back up documentation, other reports and financial changes to be made after your auditors had left our offices. All of this was completed promptly upon request. At that time it was requested of Penny Lane Centers that we recalculate and resubmit the DMH Cost reports for fiscal years ending 06/30/09 and 06/30/10. Those reports were recalculated immediately upon request but the Department of Mental Health asked that we not submit the reports until they received finalized audit report from your offices. As a result of this report and the most recently completed audit we are able to complete the process and submit those reports to the

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Founded in 1969, Penny Lane is a 501 (c) (3) non-profit organization serving abused, abandoned and neglected children with Foster Care, Adoption Services, Residential Treatment, Mental Health, Transitional Housing, and Educational Services. Penny Lane Tax ID 95-2633765



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Department of Mental Health. The reports will be sent to DMH immediately since, as previously stated, they were completed some time ago.

Penny Lane Centers' management appreciates the recommendations of the Auditor-Controller's office and hopes that we have shown our willingness and ability to make the changes required of us throughout this process. This letter serves as our response to the audit's findings and recommendations. We sincerely hope that this management letter and its contents will suffice to allow the Auditor-Controller to finalize both audits referenced here. If you require any further information please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Bernie LaFianza".

Bernie LaFianza
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818-892-3574 fax